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TO RUEHC/SECSTATE WASHDC 9300
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
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RUEHML/AMEMBASSY MANILA 3034
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SUBJECT: PAKISTANI CARPET EXPORTS DOWN AS LUXURY SPENDING ABROAD
SLUMPS

¶11. (U) Summary. According to media reports and State Bank of Pakistan (SBP) data, Pakistan's handmade carpet exports have declined by 10 percent in August 2008 over August 2007, continuing a downward trend in the sector's exports. Pakistan exported USD 16.1 million worth of rugs, carpets and mats worldwide during August, compared to USD 17.9 million in August 2007, a decline of USD 1.8 million. Carpets, mats and rugs make up 0.8 percent of Pakistan's exports. Overall, Pakistan ranks fourth among the carpet exporters in terms of value, and second in terms of volume. End Summary.

¶12. (U) According to media reports, based on data released by the SBP in mid-September, Pakistan's carpet exports have declined by 10 percent in August 2008 over August 2007, continuing a downward trend in the sector's exports. Pakistan exported USD 16.1 million worth of rugs, carpets and mats worldwide during August, compared to USD 17.9 million in August 2007, a decline of USD 1.8 million. During the 2006-07 fiscal year, overall exports declined 7.7 percent from USD 259.7 million to USD 239.7 million. Carpets, mats and rugs make up 0.8 percent of Pakistan's exports (compared to August 2004 when the sector comprised 1.8 percent of exports). Of six leading carpet suppliers in the world - Iran, China, India, Pakistan, Nepal and Turkey - Pakistan ranks fourth in terms of value, and second in terms of volume. The carpet industry employs an estimated 1.5 million people in Pakistan. Historically, a majority of carpet industry workers have been Afghan refugees living in Pakistan and average wages have been reported to be PKR 2,500 per square foot of woven carpet. However, since much of the industry is informal, labor and turnover estimates may not be accurate.

¶13. (U) Badshah Butt, a major carpet exporter in Lahore, told EconOff that in the industry, labor costs comprise 70 percent of production costs and materials comprise 30 percent. Both areas have been subject to inflation and cost increases in recent months, thus raising the price of Pakistani carpets on the international market and making them less competitive. According to Butt, the economic woes in the U.S. have also led to a weak market for carpets. He said that since carpets are a luxury item, not a necessity like food or clothing, economic downturns always have an immediate slow-down effect on sales.

¶14. (U) The chairman of the World Hand-Made Carpet Organization in Pakistan, Akhtar Nazir Khan, told EconOff that hand-made carpets from Pakistan made up 3.5 percent of the floor covering market in the U.S. but that they were working on expanding their market in the U.S. Khan confirmed that the economic troubles in the U.S. have negatively impacted sales there, especially in mid-range products, however high end sales were still doing reasonably well.

¶ 5. (U) Handmade carpets in particular are a cottage industry which provides a major source of income particularly among the rural poor.

Production does not require large amounts of capital or infrastructure, and the skill can be fairly easily acquired.

Because the carpets can be made in the home, women can be employed in carpet-making, even in very conservative areas where women are prevented from working outside the home. However, for the same reason, it is easy to employ children which raises concerns in the sector of child labor. Because of the informal nature of the sector, no official estimates exist, however 2005 estimates by the International Labor Organization state that there were perhaps 200,000 children employed in carpet-weaving in Pakistan.

Ninety-nine percent of handmade carpets made in Pakistan are exported, and the U.S. is the largest export market, followed by Europe. The income from one carpet can sustain a poor family for an entire year. The bulk of Pakistan's carpet exports are handmade carpets.

¶ 6. (U) Comment: Although only a small portion of Pakistan's overall exports, carpets are arguably a product for which Pakistan is best known. As the U.S. and world economic crisis continues to unfold, a reduction in luxury spending is inevitable and Pakistan will likely face continued declines in their carpet sales. Post continues to work with non-governmental organizations and the Government of Pakistan to address domestic labor concerns. End comment.

FEIERSTEIN